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INFO RUEHUJA/AMEMBASSY ABUJA 1272
RUEHBJ/AMEMBASSY BEIJING 0027
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RUEHDK/AMEMBASSY DAKAR 1178
RUEHKL/AMEMBASSY KUALA LUMPUR 0029
RUEHLO/AMEMBASSY LONDON 1550
RUEHNM/AMEMBASSY NIAMEY 2814
RUEHFR/AMEMBASSY PARIS 1964
RUEHYD/AMEMBASSY YAOUNDE 1350
RUEHGZ/AMCONSUL GUANGZHOU 0011
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UNCLAS SECTION 01 OF 03 NDJAMENA 001095

SIPDIS

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DEPT FOR AF, EB, ENERGY FOR CAROLYN GAY AND GEORGE PEARSON,
TREASURY FOR OTA, LONDON AND PARIS FOR AFRICA WATCHERS,
DAKAR FOR FCS REPRESENTATIVE CYNTHIA GRIFFITH GREENE

E.O. 12958: N/A
TAGS: ECON EFIN ENRG PGOV CD
SUBJECT: CHAD: CHEVRON/PETRONAS TAX DISPUTE UPDATE

¶1. (SBU) SUMMARY: Reiterating that oil consortium members Chevron and Petronas' tax agreement was "illegal," acting Petroleum Minister and National Petroleum Coordinator both expressed confidence that the situation could be resolved so long as Chevron and Petronas paid the taxes owed. According to Esso representatives, Chevron and Petronas may indeed avoid arbitration and negotiate with the GOC to resolve their tax dispute. However, foreshadowing longer-term problems for the members, President Deby lashed out at Petronas and Chevron in a GOC-planned demonstration, and called for the GOC to take a 60% ownership (the amount currently owned by Chevron/Petronas) in the Consortium's production activities. "Just a coincidence" was how GOC officials described the visit last weekend of the Vice Foreign Minister of Venezuela, but disclosed that the envoy carried a letter from President Chavez offering training in oil management. End summary.

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CHEVRON AND PETRONAS SEEK THE DIPLOMATIC ROUTE
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¶2. (SBU) On August 29, Esso Public Affairs Advisor Miles Shaw told Econ/Consular Officer that consortium partners Chevron and Petronas were leaning against going to arbitration in their tax dispute with the GOC, and indicated that they may explore settling directly with the GOC. It was unclear how they would go about doing this, but both organizations were considering having senior officials reach out the GOC. Esso still planned to hold off on any response to GOC calls to renegotiate the 1988 Convention, and was still considering a meeting with Exxon-Mobil chairman Tillerman and President Deby.

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INTERIM PETROLEUM MINISTER'S AND NATIONAL PETROLEUM
COORDINATOR'S VIEWS
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¶3. (SBU) During a meeting with CDA on August 30, interim Petroleum Minister Mahamat Ali Abdallah Nassour stated that

the GOC wanted to see a resolution in its tax dispute with Chevron and Petronas, but the companies needed to respect their financial obligations and pay the taxes they owed. He claimed that the tax benefit agreement between Chevron and Petronas and the GOC was done without the approval of the Chadian President, the Chadian National Assembly, or the Chadian Prime Minister, and that the secrecy of the negotiations demonstrated its illegality. Nassour stated that President Deby had sent in a letter to President Bush on August 26 via the Chadian Embassy in Washington explaining his position, and said that he hoped the U.S. would understand Chad's sovereign right to defend its economic interests. President Deby reportedly sent similar letters to the President of Malaysia and to World Bank President Wolfowitz.

¶4. (SBU) Nassour also said that the GOC was fully prepared to move forward with its plans to renegotiate its existing conventions with Esso. While it would take some time to implement plans for a Chadian national oil company that would take part in the production of the country's oil, Nassour argued that Esso could provide the technical expertise for the development of the company. He denied that the suspension of Chevron's and Petronas' operations was linked to the GOC's plans to directly insert its national oil company into the oil production process in their place. He did state however, that the companies had reaped a rich profit on their initial investment, and therefore should consider themselves sufficiently rewarded.

¶5. (SBU) On August 29, National Petroleum Coordinator Haroun Kabadi admitted that while the dispute initially developed as

a technical dispute over the amortization schedule of the Consortium partners' costs, the issue had evolved into a political dispute over the legitimacy of a tax benefits agreement. He acknowledged that the expulsion of Chevron and Petronas had been precipitate. Queried as to the practical impact of the expulsion for the consortium's operations, Kabadi himself was mystified and admitted that the government had not appeared to have thought through all of the implications.

¶6. (SBU) In order for a resolution to be reached, both parties needed to come back to the negotiating table. Kabadi said that he believed this was possible. However, if an amicable resolution was not possible, then both parties would have to enter into arbitration to resolve the matter. He added that the GOC may also take another, and much harsher approach, and rupture its relations with Chevron and Petronas and face consequences with investors in the Chad-Cameroon Pipeline (this option, Kabadi pointed out, was more unlikely given the risks associated with such a rash decision). Like Nassour, Kabadi did note that the tax dispute and the renegotiation of the conventions with Esso were two separate issues, and was being treated by the GOC as separate.

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DEBY BLASTS CHEVRON AND PETRONAS, NOTES BEGINNING OF "REVOLUTION
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¶7. (SBU) On August 29, President Deby delivered a clear and aggressive message on Chad's decision to suspend Chevron and Petronas' operations and begin renegotiation of the country's oil conventions, during a GOC-organized public demonstration, which was attended by an estimated 1,000 people. Cheering supporters listened as Deby asserted that "a revolution has begun. We're only receiving the crumbs, that are called royalties, but that amount to 12.5 percent of our oil. This is a flagrant injustice. I've been asking since 2000, and insisting since 2004, with all of our partners, that the terms of the 1988 convention be renegotiated. I was not

heard. So, the Government has a made a decision that had to be taken, and this decision is healthy: not only must the two companies pay their dues to the public treasury, but Chad must enter into the country's production, at a reasonable level of 60 percent." Deby also acknowledged what he viewed as Exxon-Mobil's good behavior, stating, "one company has not failed in its obligations, I'm speaking of Exxon-Mobil, with whom we will continue to work."

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GOC NAMES NEW MINISTERS, APPOINTS COMMISSION
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¶8. (SBU) On August 29, the Government appointed new ministers to the Petroleum and Livestock ministries, naming Emmanuel Nadinger (former Minister of Environment and, previously Minister of Defense) as the Petroleum Minister and Rakhis Manany, influential businessman and a close confidant to President Deby, as Minister of Livestock to replace the Ministers dismissed in connection with the Chevron/Petronas tax arrangement. The GOC also appointed a national commission to begin discussions on the renegotiation of the existing oil conventions. The President of the National Assembly was named President of the Commission. The commission consists of members from the Government and representatives from civil society.

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AND VENEZUELA PAYS A CALL
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¶9. (SBU) "Just a coincidence" was how GOC officials described

the timing of the visit of the Venezuelan Vice Foreign Minister the same weekend that President Deby ordered Petronas and Chevron out of the country. However, GOC officials disclosed that the envoy carried a message from President Chavez offering training in oil management, and it appears that the Chadian Ambassador to Washington will shortly be presenting his credentials in Venezuela as well.

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COMMENT
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¶10. (SBU) There is a clear difference between GOC officials' assertions that the tax dispute and renegotiation of the conventions are separate, and President Deby's public comments that appear to link the two initiatives. While Chevron and Petronas may resolve the short term issue of their taxes, the GOC's clearly stated intention to pursue a majority share of the oil consortium will undoubtedly figure prominently in that negotiation.

TAMLYN